



Certified Public Accountants  
and Consultants

4501 Ford Avenue, Suite 1400, Alexandria, VA 22302  
PH: 703.931.5600, FX: 703.931.3655, www.kearneyco.com

### Independent Auditor's Report

To the Architect of the Capitol

We have audited the accompanying Balance Sheets of the Architect of the Capitol (AOC) as of September 30, 2005 and 2006, and the related Statement of Net Cost, Statement of Changes in Net Position, Statement of Financing, and Statement of Budgetary Resources for the years then ended. These financial statements are the responsibility of AOC's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 06-03, *Audit Requirements for Federal Financial Statements*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes an assessment of the accounting principles used and significant estimates made by management, as well as an evaluation of the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial positions of AOC as of September 30, 2005 and 2006, and its net costs, changes in net position, budgetary resources, and financing of operations for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our reports dated January 12, 2007, on our consideration of the AOC's internal control over financial reporting and on its compliance and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

January 12, 2007  
Alexandria, Virginia

**ARCHITECT OF THE CAPITOL****Balance Sheets**

As of September 30, 2006 and 2005 in Thousands

	Fiscal Year 2006	Fiscal Year 2005
<b>Assets</b>		
Intragovernmental Assets:		
Fund Balance with Treasury (Note 2)	\$ 632,235	\$ 652,639
Investments (Note 3)	1,392	7,084
Accounts Receivable (Note 4)	1,461	21,469
Total Intragovernmental Assets	<u>\$ 635,088</u>	<u>\$ 681,192</u>
Investments (Note 3)	33,202	31,863
Accounts Receivable (Note 4)	139	153
Property and Equipment, Net (Note 5)	1,615,800	1,429,535
Other (Note 6)	16	648
AOC Heritage Collections (Note 1 J)	-	-
<b>Total Assets</b>	<b><u>\$ 2,284,245</u></b>	<b><u>\$ 2,143,391</u></b>

The accompanying notes are an integral part of these financial statements.

# ARCHITECT OF THE CAPITOL

## Balance Sheets (continued)

As of September 30, 2006 and 2005 in Thousands

	Fiscal Year 2006	Fiscal Year 2005
<b>Liabilities</b>		
Intragovernmental Liabilities:		
Accounts Payable (Note 7)	\$ 363	\$ 3
Accrued Unfunded Workers' Compensation (Notes 7 and 8)	8,560	8,476
Other (Note 7)	58	1,312
<b>Total Intragovernmental Liabilities</b>	<b>\$ 8,981</b>	<b>\$ 9,791</b>
Accounts Payable	9,951	2,614
Debt Held by the Public (Note 9)	156,167	159,729
Actuarial Unfunded Workers' Compensation (Note 8)	46,938	48,177
Contingent and Environmental Liabilities (Note 10)	38,694	35,418
Accrued Annual Leave and Other (Note 8)	13,689	13,440
Capital Lease Liability (Note 12)	47,753	34,626
Other Accrued Liabilities (Note 13)	38,793	39,026
Contract Holdbacks (Note 13)	20,468	20,529
Advances from Others (Note 13)	5,381	5,696
<b>Total Liabilities</b>	<b>\$ 386,815</b>	<b>\$ 369,046</b>
<b>Net Position</b>		
Unexpended Appropriations	457,254	511,819
Cumulative Results of Operations	1,440,176	1,262,526
<b>Total Net Position</b>	<b>\$ 1,897,430</b>	<b>\$ 1,774,345</b>
<b>Total Liabilities and Net Position</b>	<b>\$ 2,284,245</b>	<b>\$ 2,143,391</b>

The accompanying notes are an integral part of these financial statements.

**ARCHITECT OF THE CAPITOL****Statements of Net Cost**

For the years ended September 30, 2006 and 2005 in Thousands

Program Costs	Fiscal Year 2006	Fiscal Year 2005
<b>General and Administrative</b>		
Gross Costs	\$ 94,330	\$ 55,874
Less Earned Revenue	-	-
Net General and Administrative Costs	94,330	55,874
<b>Capitol Building</b>		
Gross Costs	37,557	41,743
Less Earned Revenue	(1,548)	-
Net Capitol Building Costs	36,009	41,743
<b>Senate Office Buildings</b>		
Gross Costs	69,025	64,305
Less Earned Revenue	(4,184)	(55)
Net Senate Office Buildings Costs	64,841	64,250
<b>House Office Buildings</b>		
Gross Costs	47,541	50,013
Less Earned Revenue	(33)	(41)
Net House Office Buildings Costs	47,508	49,972
<b>Capitol Power Plant</b>		
Gross Costs	66,872	59,381
Less Earned Revenue	(6,247)	(6,001)
Net Capitol Power Plant Costs	60,625	53,380
<b>Library of Congress</b>		
Gross Costs	29,144	29,299
Less Earned Revenue	(38)	(315)
Net Library of Congress Costs	29,106	28,984
<b>Capitol Police</b>		
Gross Costs	10,685	7,694
Less Earned Revenue	-	-
Net Capitol Police Costs	10,685	7,694
<b>Botanic Gardens</b>		
Gross Costs	6,541	11,706
Less Earned Revenue	-	-
Net Botanic Gardens Costs	6,541	11,706
<b>Judiciary Buildings</b>		
Gross Costs	34,519	31,451
Less Earned Revenue	(28,507)	(26,488)
Net Judiciary Buildings Costs	6,012	4,963
<b>Net Cost of Operations</b>	<b>\$ 355,657</b>	<b>\$ 318,566</b>

The accompanying notes are an integral part of these financial statements.



# ARCHITECT OF THE CAPITOL

## Statements of Changes in Net Position

For the years ended September 2006 and 2005 in Thousands

	Fiscal Year 2006	Fiscal Year 2005
<b>CUMULATIVE RESULTS OF OPERATIONS</b>		
Beginning Balances	\$ 1,262,526	\$ 904,619
<b>Budgetary Financing Sources:</b>		
Other Adjustments (Rescissions, etc.)		
Appropriations Used	506,527	581,291
Non-Exchange Revenue	193	148
Donations & Forfeitures of Cash and		
Cash Equivalents	-	1,965
Transfers - In/Out Without Reimbursement	-	65,000
<b>Other Financing Sources:</b>		
Transfers - In/Out Without Reimbursement	-	4,168
Imputed Financing from Costs Absorbed		
by Others (Note 11)	26,587	23,901
<b>Total Financing Sources</b>	<b>\$ 533,307</b>	<b>\$ 676,473</b>
<b>Net Cost of Operations</b>	<b>(355,657)</b>	<b>(318,566)</b>
<b>Net Change</b>	<b>\$ 177,650</b>	<b>\$ 357,907</b>
<b>Cumulative Results of Operations</b>	<b>\$ 1,440,176</b>	<b>\$ 1,262,526</b>
<b>UNEXPENDED APPROPRIATIONS</b>		
Beginning Balances	\$ 511,819	\$ 735,188
<b>Budgetary Financing Sources:</b>		
Appropriations Received	461,702	385,518
Appropriations Transferred-In/Out	(850)	(15,453)
Other Adjustments (Rescissions, etc.)	(8,890)	(12,143)
Appropriations Used	(506,527)	(581,291)
<b>Total Budgetary Financing Sources</b>	<b>\$ (54,565)</b>	<b>\$ (223,369)</b>
<b>Total Unexpended Appropriations</b>	<b>\$ 457,254</b>	<b>\$ 511,819</b>
<b>Total Net Position</b>	<b>\$ 1,897,430</b>	<b>\$ 1,774,345</b>

The accompanying notes are an integral part of these financial statements.

**ARCHITECT OF THE CAPITOL****Statements of Budgetary Resources**

For the years ended September 30, 2006 and 2005 in Thousands

	Fiscal Year 2006	Fiscal Year 2005
<b>Budgetary Resources</b>		
Unobligated Balance, Brought Forward, October 1	\$ 282,773	\$ 431,527
Recoveries of Prior Year Unpaid Obligations	14,331	12,166
Budget Authority:		
Appropriation	461,895	385,666
Borrowing Authority	13,730	14,018
Spending Authority from Offsetting		
Collections Earned:		
Collected	44,900	33,509
Change in Receivables from Federal Sources	1,413	-
Change in Unfilled Orders:		
Advance Received	(315)	5,328
Anticipated for the Rest of the Year		
Without Advance		
Expenditure Transfers from Trust Funds	-	65,000
Subtotal Budget Authority	\$ 521,623	\$ 503,521
Nonexpenditure Transfers, Net, Anticipated and Actual	(850)	(15,453)
Permanently Not Available	(26,120)	(29,373)
<b>Total Budgetary Resources</b>	<b>\$ 791,757</b>	<b>\$ 902,388</b>
<b>Status Of Budgetary Resources</b>		
Obligations Incurred:		
Direct	\$ 481,475	\$ 592,199
Reimbursable	36,900	27,415
Subtotal	\$ 518,375	\$ 619,614
Unobligated Balance:		
Exempt from Apportionment	243,454	263,644
Unobligated Balances - Not Available	29,928	19,130
<b>Total Status Of Budgetary Resources</b>	<b>\$ 791,757</b>	<b>\$ 902,388</b>

The accompanying notes are an integral part of these financial statements.

# ARCHITECT OF THE CAPITOL

## Statements of Budgetary Resources (continued)

For the years ended September 30, 2006 and 2005 in Thousands

	Fiscal Year 2006	Fiscal Year 2005
<b>Change In Obligated Balances</b>		
Obligated Balances, Net:		
Unpaid Obligations, Brought Forward, October 1	\$ 396,953	\$ 409,623
Less: Uncollected Customer Payments from Federal Sources, Brought Forward, October 1	(20,000)	-
<b>Total Unpaid Obligated Balance, Net</b>	<b>\$ 376,953</b>	<b>\$ 409,623</b>
Obligations Incurred, Net	518,375	619,614
Less: Gross Outlays	(539,339)	(620,117)
Less: Recoveries of Prior-Year Unpaid Obligations, Actual	(14,331)	(12,167)
Change In Uncollected Customer Payments from Federal Sources	18,587	(20,000)
<b>Total, Obligated Balances, Net</b>	<b>\$ 360,245</b>	<b>\$ 376,953</b>
Obligated Balance, Net, End of Period		
Unpaid Obligations	\$ 361,658	\$ 396,953
Less: Uncollected Customer Payments from Federal Sources	(1,413)	(20,000)
<b>Total, Unpaid Obligated Balance, Net, End Of Period</b>	<b>\$ 360,245</b>	<b>\$ 376,953</b>
Net Outlays		
Gross Outlays	\$ 539,340	\$ 620,117
Less: Offsetting Collections	(64,585)	(83,836)
<b>Total Net Outlays</b>	<b>\$ 474,755</b>	<b>\$ 536,281</b>

The accompanying notes are an integral part of these financial statements.

**ARCHITECT OF THE CAPITOL****Statements of Financing**

For the years ended September 30, 2006 and 2005 in Thousands

	Fiscal Year 2006	Fiscal Year 2005
<b>Resources Used to Finance Activities:</b>		
<b>Budgetary Resources Obligated</b>		
Obligations Incurred	\$ 518,375	\$ 619,614
Less: Spending Authority from Offsetting		
Collections & Recoveries	(60,329)	(116,003)
<b>Net Obligations</b>	<b>\$ 458,046</b>	<b>\$ 503,611</b>
<b>Other Resources</b>		
Transfers In/Out without Reimbursement	-	4,168
Imputed Financing from Costs Absorbed by		
Others (Note 11)	26,587	23,901
<b>Net Other Resources Used to Finance Activities</b>	<b>\$ 26,587</b>	<b>\$ 28,069</b>
<b>Total Resources Used to Finance Activities</b>	<b>\$ 484,633</b>	<b>\$ 531,680</b>
<b>Resources Used to Finance Items Not Part</b>		
<b>of the Net Cost of Operations</b>		
Change in Budgetary Resources Obligated for		
Goods, Services and Benefits but not yet Provided	\$ (43,126)	\$ (7,669)
Resources that Fund Expenses Recognized		
in Prior Period	(9,688)	1,775
Budgetary Offsetting Collections and Receipts		
that do not affect Net Cost of Operations	-	(66,965)
Resources that Finance the Acquisition of Assets	236,718	333,777
Obligated Resources that do not affect Net Cost		
of Operations	(875)	-
<b>Total Resources Used to Finance Items Not</b>		
<b>Part of the Net Cost of Operations</b>	<b>\$183,029</b>	<b>\$ 260,918</b>
<b>Total Resources Used to Finance the Net</b>		
<b>Cost of Operations</b>	<b>\$ 301,604</b>	<b>\$ 270,762</b>

The accompanying notes are an integral part of these financial statements.



# ARCHITECT OF THE CAPITOL

## Statements of Financing (continued)

For the years ended September 30, 2006 and 2005 in Thousands

	Fiscal Year 2006	Fiscal Year 2005
<b>Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:</b>		
<b>Components Requiring or Generating Resources in Future Periods</b>		
Increase in Annual Leave Liability	\$ 72	\$ 724
Increase in Environmental and Disposal Liability	24	4,800
Increase in Exchange Revenue Receivable from the Public	-	26
Other (+/-)	(246)	(10,409)
<b>Total Components of Net Cost of Operations that will Require or Generate Resources in Future Periods</b>	<b>\$ (150)</b>	<b>\$ (4,859)</b>
<b>Components Not Requiring or Generating Resources:</b>		
Depreciation and Amortization	53,986	52,860
Revaluation of Assets or Liabilities (+/-)	41	-
Other (+/-)	176	(197)
<b>Total Components of Net Cost of Operations that will not Require or Generate Resources</b>	<b>\$ 54,203</b>	<b>\$ 52,663</b>
<b>Total Components of Net Cost of Operations that will not Require or Generate Resources in the Current Period</b>	<b>\$ 54,053</b>	<b>\$ 47,804</b>
<b>Net Cost of Operations</b>	<b>\$ 355,657</b>	<b>\$ 318,566</b>

The accompanying notes are an integral part of these financial statements.

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## NOTE 1: Summary of Significant Accounting Policies

### A. Reporting Entity

The Architect of the Capitol (AOC) is an office within the legislative branch of the federal government. Initially authorized by Congress to provide "suitable buildings and accommodations for the Congress of the United States," our role has evolved to include responsibility for the maintenance, operation, development, and preservation of the Capitol Building, Senate Office Buildings, House Office Buildings, Library of Congress Buildings and Grounds, Capitol Power Plant, U.S. Botanic Garden, Capitol Police Buildings and Grounds, Supreme Court Building and Grounds, and all of the grounds encompassing the Capitol campus.

We are also responsible for:

- providing facilities management services for the Senate Restaurants
- construction of the Capitol Visitor Center
- arrangements for the Presidential Inaugural and other ceremonies held on the Capitol Grounds
- providing steam and chilled water to the Supreme Court and Thurgood Marshall Federal Judiciary Buildings, Union Station, and the Folger Library, as well as steam only to the Government Printing Office and the Postal Square building

Non-entity activities include:

- a portion of steam and chilled water,
- flag-flying fees, and
- provision of palm trees for rent.

Upon receipt, funds for these activities are not available for our use. The only non-entity asset is in accounts receivable.

### B. Basis of Accounting and Presentation

Our Balance Sheet has been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as promulgated by the Federal Accounting Standards Advisory Board (FASAB). The American Institute of Certified Public Accountants (AICPA) recognizes FASAB standards as GAAP for federal reporting entities. These principles differ from budgetary reporting principles. The differences relate primarily to the capitalization and depreciation of property and equipment as well as the recognition of other long-term assets and liabilities.

GAAP require us to make certain estimates and assumptions. These estimates and assumptions affect the reported amounts of assets, liabilities (including contingent liabilities), and the reported amounts of revenue and expenses during the reporting period. Actual results may differ from our estimates.

For financial reporting purposes, we have issued AOC Order No.32-02 which adopts GAAP for financial reporting and internal controls in a manner consistent for a legislative office. As a legislative branch office, we are not required to follow the accounting principles established by the Comptroller General under 31 U.S.C. 3511 or the standards promulgated by FASAB.

We have not adopted the Federal Managers Financial Integrity Act, the Federal Financial Management Improvement Act of 1996, or the Government Performance and Results Act, as these standards apply only to executive branch agencies. We are committed to using these Acts as "best practices" and are incorporating them into our financial management practices as appropriate.

### C. Fund Balance with Treasury

We maintain all cash accounts, with the exception of investments described in Note 3, with the U.S. Department of Treasury (Treasury). The Fund Balance with Treasury account represents the unexpended balances of appropriation accounts, trust accounts, and revolving funds. Cash receipts and disbursements are processed by Treasury, and our records are reconciled with those accounts on a regular basis.

### D. Accounts Receivable

Accounts Receivable includes reimbursement for supplying entities on Capitol Hill with steam and chilled water to heat and cool their facilities (see Note 4). Per annual appropriation, we provide steam and chilled water to the Folger Library, Union Station, Supreme Court and Thurgood Marshall Federal Judiciary Buildings, as well as steam only to the Government Printing Office and the Postal Square building. We are legislatively provided the ability to collect a pre-determined amount to recover the cost of supplying these services and record these amounts as offsetting collections. Any amount collected over the pre-determined amount is credited to the Treasury's Miscellaneous Receipt Fund and is a non-entity asset.



### E. Investments

As a result of financing the construction of the Thurgood Marshall Federal Judiciary Building, we have funds invested by a trustee (see Note 3). These investments are recorded at current market value.

### F. Trust and Revolving Funds

We have stewardship responsibility for three revolving funds that are included in the balance sheet. The revolving funds consist of the House of Representatives Wellness Center Fund, the Senate Health and Fitness Facility Fund, and the Judiciary Office Building Development and Operations Fund. Preservation and maintenance of the House of Representatives Wellness Center are paid by members' dues. Proceeds from the Senate recycling program are used to pay for the preservation and maintenance of the Senate Health and Fitness Facility. The Judiciary Office Building Development and Operations Fund is used to record transactions related to the Thurgood Marshall Federal Judiciary Building (TMFJB) (see Note 3).

We also administer the National Garden Trust Fund, subject to the direction of the Joint Committee on the Library (of Congress). We are authorized to accept gifts or bequests of money, plant material, and other property on behalf of the Botanic Garden. Gifts of money are deposited into the National Garden Trust Fund. We can also dispose of, utilize, obligate, expend, disburse, and administer such gifts for the benefit of the Botanic Garden, including, among other things, the carrying out of any programs, duties, or functions of the Botanic Garden, and for constructing, equipping, and maintaining the National Garden (see Note 3).

### G. Recognition of Financing Sources

We receive funding to support our programs through appropriations authorized by Congress. Funding for our operating and capital expenditures is received as annual, multi-year, and no-year appropriations. The appropriations we receive are:

- Botanic Garden
- Capitol Building
- Capitol Grounds
- Capitol Police Buildings and Grounds
- Capitol Power Plant
- Capitol Visitor Center

- Congressional Cemetery
- General Administration
- House Office Buildings
- Library Buildings and Grounds
- Senate Office Buildings

### H. Operating Materials and Supplies

Our materials and supplies consist of tangible personal property consumed during normal operations. Per Statement of Federal Financial Accounting Standard (SFFAS) No. 3, "Inventory and Related Property," operating materials and supplies are recorded using the purchases method. The purchases method provides that operating materials and supplies be expensed when purchased.

Operating materials and supplies are purchased using funds specifically appropriated to our ten jurisdictions; therefore, the related usage of those materials and supplies is restricted to those specific appropriations making the purchases.

### I. Property and Equipment

We record property and equipment at cost. We depreciate buildings and equipment over their estimated useful lives, which range from 2 to 40 years, using the straight-line method. All AOC property and equipment is in our possession. None is held by others (see Note 5).

The following table presents our capitalization thresholds and related useful lives.

Property Type	Useful Life (years)	Capitalization Threshold
Real Property	40	\$200,000
Improvements	20	\$200,000
Equipment and Vehicles	2-15	\$25,000
Assets under Capital Lease	Shorter of Lease Term or Useful Life of Property Type	See related Property Type
Intellectual Property	3	\$1,000,000



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The Capitol Building, the Supreme Court Building, and the Senate and House office buildings, as well as the Library of Congress Jefferson Building, are considered multi-use heritage assets and are included in the balance sheet.

#### J. AOC Heritage Collections

The AOC's collections are classified as "heritage assets." Per SFFAS No. 6, their value is not presented on our balance sheets. Stewardship information covering the acquisition, use, and preservation of the collections is contained in the Stewardship Report.

#### K. Liabilities

Liabilities represent the amounts we owe to others for goods or services received, and amounts owed for progress in contract performance. Because no liability can be paid without an enacted appropriation, some liabilities are funded while others are unfunded. For accrued unfunded annual leave and workers' compensation, appropriations may be enacted to fund these activities. The Balance Sheet presents the following types of liabilities:

- Unfunded actual and actuarial workers' compensation
- Accounts payable
- Debt held by the public
- Annual leave
- Capital lease liability

#### L. Personnel Compensation and Benefits

**Federal Employee Benefits** -The Federal Employees' Compensation Act (FECA) provides income and medical cost protection to covered federal civilian employees injured on the job, employees who have incurred a work-related occupational disease, and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. The FECA program is administered by the U.S. Department of Labor (DOL), which initially pays valid claims and subsequently seeks reimbursement from the federal agencies employing the claimants. The DOL determines the actuarial liability for claims outstanding at the end of each fiscal year. This liability includes the estimated future costs of death benefits, workers' compensation, and medical and miscellaneous costs for approved compensation cases (see Note 8).

We recognize our share of the cost of providing future pension benefits to eligible employees over the period that they render the related services. This amount is considered imputed financing to us (see Note 11).

We also recognize a current-period expense for the future cost of post-retirement health benefits and life insurance for our employees while they are actively employed. This amount is also considered imputed financing to us (see Note 11).

**Annual, and Other Leave** - Annual leave is recognized as an expense and a liability as it is earned. The liability is reduced as leave is taken. The accrued leave liability is principally long-term in nature. Other types of leave are expensed when taken and no future liability is recognized for these amounts (see Note 8).

#### M. Contingencies

We account for contingencies in accordance with SFFAS No. 5, "Accounting for Liabilities of the Federal Government." It defines a contingency as an existing condition, situation, or set of circumstances involving uncertainty as to the possible gain or loss to an entity that will ultimately be resolved when one or more future events occur or fail to occur. We recognize a contingent liability when a past transaction or event has occurred, a future outflow or other sacrifice of resources is probable, and the related future outflow is measurable. We have recorded provisions for losses in relation to the definition of contingent liabilities documented above (see Note 10).

#### N. Statement of Net Cost

The Statement of Net Cost (SONC) is presented in accordance with SFFAS No. 4, by responsibility segment/jurisdiction. Costs not otherwise assigned to responsibility segment/jurisdictions are presented as General Administrative. We have a number of initiatives (cost accounting, performance-based budgeting, etc.) in process that will assist us with gathering data in a manner to provide even more information to our stakeholders. While these initiatives are in various stages of progress, we believe the responsibility segment/jurisdiction approach provides information to our stakeholders in a direct and succinct manner. As our financial reporting processes mature, we plan to enhance our SONC by linking it to our strategic plan following best practices seen at other agencies.

The responsibility segments are aggregates of the following funds:

General Administrative  
 General Administrative  
 American Disabilities Act  
 Congressional Cemetery

Capitol Buildings and Capitol Grounds  
 Capitol Buildings  
 Capitol Grounds  
 Capitol Visitor Center  
 West Central Front

Senate Office Building  
 Senate Office Building  
 Senate Health and Fitness

House Office Building  
 House Office Building  
 House Wellness Center

Capitol Power Plant  
 Library of Congress and Grounds  
 Capitol Police and Grounds

Botanic Garden  
 Botanic Garden  
 National Garden

Judiciary Buildings and Grounds  
 Supreme Court  
 Thurgood Marshall

Revenues are calculated on a direct cost recovery basis.

#### O. Reclassifications

Reclassifications were made to the presentation of the September 30, 2005 financial statements and footnotes to improve their comparability with the September 30, 2006 statements and footnotes.

#### NOTE 2: Fund Balance with Treasury

Our funds with Treasury primarily consist of appropriated funds. We also have stewardship responsibility for three revolving funds and administer one trust fund. The balance of these funds as of September 30, 2006 and 2005 is as follows:

#### A. Fund Balances

\$ in thousands

Fund Type	2006	2005
Appropriated Funds	\$630,109	\$650,861
Revolving Funds	10	2
Trust Funds	2,116	1,776
Total	\$632,235	\$652,639

#### B. Status of Fund Balance with Treasury

We classify our funds with Treasury as obligated, unobligated available, or unobligated unavailable. Unobligated available balances represent unexpired appropriations available for incurring new obligations. Unobligated unavailable balances are expired appropriations no longer available to incur new obligations. Obligated balances not yet disbursed include undelivered orders or orders received but not yet paid.

Status of Fund Balance with Treasury as of September 30, 2006 and 2005, consist of the following:

\$ in thousands

Balance Type	2006	2005
Unobligated Balance		
Available	\$235,600	\$243,011
Unavailable	34,977	32,675
Obligated Balance		
not yet Disbursed	361,658	376,953
Total	\$632,235	\$652,639

#### C. Other information

As of September 30, 2006, we had the following differences due to disbursement transactions in-transit:

- 1) \$116 was not yet posted to our general ledger, but had been reported to Treasury by the National Finance Center, and
- 2) \$837 thousand was posted to our general ledger but the Supreme Court had not yet reported this to Treasury.



### NOTE 3: Investments

#### A. Investments with Treasury

The National Garden at the U.S. Botanic Garden was funded privately via The National Fund for the U.S. Botanic Garden (USBG), a not-for-profit corporation assisting the Architect of the Capitol in raising private funds pursuant to Public Law 102-229. This is the first project, authorized by Congress for construction by the Architect of the Capitol, which was financed with privately donated funds. Funds were raised by private citizens, corporations, and garden clubs from across the nation. We invest the donated funds in government account securities through the Bureau of Public Debt using their Web based application, FedInvest. By law, the interest earned is credited to the National Garden fund.

The balances at year September 30, 2006 and 2005 are as follows:

\$ in thousands		
Investments Held With Treasury	2006	2005
Invested	\$ 7,084	\$10,192
Interest	192	148
Less: Expended	(5,884)	(3,256)
Total	\$ 1,392	\$ 7,084

#### B. Investments held Outside Treasury

In 1989, we entered into a contractual agreement with Boston Properties for the construction of the Thurgood Marshall Federal Judiciary Building. To finance the construction of the building, Shearson Lehman Hutton, Inc., and Kidder, Peabody, & Co., Inc., issued 30-year Serial Zero Coupon Certificates of Participation.

The proceeds were received by a trustee, The U.S. Trust Company of NY (now The Bank of New York), and deposited into two funds, the Project Fund and the Operating Reserve Fund. The funds are held outside the U.S. Treasury by the trustee and, at our direction, are invested or disbursed.

After construction, the remaining amounts were left in trust in the Project Fund. The fund is used to finance major construction of improvements, additions, and changes or renovations. The Operating Reserve Fund is held in reserve for future needs (e.g., roof replacement, major

renovation). The market values of these funds are listed below:

\$ in thousands

#### Investments Held Outside Treasury

Fund Type	2006	2005
Operating Reserve	\$31,932	\$30,630
Project	1,270	1,233
Total	\$33,202	\$31,863

### NOTE 4: Accounts Receivable

The breakdown of consolidated gross accounts receivable at September 30, 2006 and 2005 is as follows:

\$ in thousands

#### Accounts Receivable

Receivable Type	2006	2005
Entity:		
Intragovernmental	\$1,413	\$ 20,163
With the Public	129	143
Total Entity	1,542	20,306
Non-Entity:		
Intragovernmental	48	1,306
With the Public	10	10
Total Accounts Receivable	\$1,600	\$ 21,622

Based upon a year-end review, all receivables are deemed collectible.

### NOTE 5: Property and Equipment

We differentiate our property and equipment by distinct categories. The following represents those categories in further detail.

\$ in thousands

#### Property and Equipment - 2006

Class of Property and Equipment	Acquisition Value	Accumulated Depreciation	Net Book Value
Buildings	\$ 740,615	\$ 431,339	\$ 309,276
Building Improvements	729,105	410,564	318,541
Land	154,823	-	154,823
Land Improvements	101,796	17,241	84,555
Capital Leases			
Real Property	62,603	18,445	44,158
Personal Property	91	91	-

\$ in thousands

**Property and Equipment - 2006** (continued)

Class of Property and Equipment	Acquisition Value	Accumulated Depreciation	Net Book Value
Leasehold			
Improvements	22,387	2,593	19,794
Equipment			
Computers, Hardware and Other	19,741	12,903	6,838
Construction Work-in-Progress	677,815	-	677,815
Total	\$2,508,976	\$ 893,176	\$1,615,800

\$ in thousands

**Property and Equipment - 2005**

Class of Property and Equipment	Acquisition Value	Accumulated Depreciation	Net Book Value
Buildings	\$ 744,249	\$ 417,253	\$ 326,996
Building Improvements	690,425	383,205	307,220
Land	154,823	-	154,823
Land Improvements	78,445	12,959	65,486
Capital Leases			
Real Property	36,281	5,458	30,823
Personal Property	8,790	8,772	18
Leasehold			
Improvements	9,592	762	8,830
Equipment			
Computers, Hardware and Other	14,725	10,790	3,935
Construction Work-in-Progress	531,404	-	531,404
Total	\$2,268,734	\$ 839,199	\$1,429,535

The educational, artistic, architectural, and historical significance of the Capitol, Senate, House, Supreme Court, and Jefferson buildings meets the FASAB criteria for heritage assets. Because these buildings are currently used for day-to-day business, they are further classified as multi-use heritage assets. This means we depreciate them in the same manner as if they were general purpose assets.

We are responsible for reviewing and authorizing all changes to the buildings and grounds prior to any change occurring.

**NOTE 6: Other Assets**

\$ in thousands

	2006	2005
Advances to Others	\$ 16	\$ 648

In 2006, Advances to Others consisted of travel advances and the pre-paid TMFJB investment fund fee. In 2005, Advances to Others also included a prepayment of a subscription service. The timing of payments for the subscription service was changed in 2006.

**NOTE 7: Liabilities Not Covered by Budgetary Resources**

The liabilities on our Balance Sheets as of September 30, 2006 and 2005 include liabilities not covered by current budgetary resources. These liabilities require Congressional action prior to budgetary resources being provided. Although future appropriations to fund these liabilities are likely and anticipated, it is not certain that appropriations will be enacted to fund these liabilities. Liabilities not covered by budgetary resources generally include accrued annual and compensatory leave, workers' compensation, debt held by the public, and capital lease liability. Liabilities not covered by budgetary resources for 2006 and 2005 are as follows:

\$ in thousands

Liabilities	2006	2005
Intragovernmental:		
Accounts Payable	\$ 363	\$ 3
Accrued Unfunded Workers' Compensation	8,560	8,476
Other	58	1,312
Total Intragovernmental	\$ 8,981	\$ 9,791
Total Liabilities Not Covered by Budgetary Resources	\$300,631	\$288,923
Total Liabilities Covered by Budgetary Resources	86,184	80,123
Total	\$386,815	\$369,046



#### NOTE 8: Payroll and Liabilities

The liability for Accrued Annual Leave and Other is comprised of three accounts: Funded Accrued Payroll (payrolls that have been earned but not paid), Unfunded Accrued Annual Leave (employee leave that has been earned but not taken) and Unemployment Compensation.

\$ in thousands

Accrued Annual Leave and Other		
Accrual Type	2006	2005
Funded Accrued Payroll	\$ 6,317	\$ 6,169
Unfunded Accrued Annual Leave	7,343	7,271
Unemployment Compensation	29	-
Total	\$13,689	\$13,440

Workers' Compensation is reported as required by the Federal Employees' Compensation Act (FECA). The liability is presented in two parts: an annual accrued liability for billed costs (current portion) and a long-term, actuarial-based unfunded liability (see Note 1.L).

The actuarial workers' compensation liability for 2006 and 2005 was calculated using a formula provided by the DOL.

\$ in thousands

Workers' Compensation		
Type	2006	2005
Unfunded Annual (current)	\$ 8,560	\$ 8,476
Actuarial Unfunded (long-term)	\$ 46,938	\$ 48,177

Estimated future costs have been actuarially determined, and they are regarded as a liability to the public because neither the costs nor reimbursement have been recognized by DOL. Workers' Compensation is included in Liabilities not covered by Budgetary Resources, as described in Note 7.

#### NOTE 9: Debt Held by the Public

As of September 30, 2006 and 2005, Debt Held by the Public consists of the financing obtained for the construction of the Thurgood Marshall Federal Judiciary Building. The debt consists of 30-year Serial Zero Coupon Certificates of Participation issued in 1988 worth \$125,391,621

with a maturity value of \$525,515,000. The certificates are amortized using the effective interest rate of 8.72%. The balance of Debt Held by the Public is as follows:

\$ in thousands

Debt Held by the Public	2006	2005
Securities	\$310,140	\$327,370
Interest Payable	1,158	1,246
Subtotal	311,298	328,616
Discount on Securities	(400,123)	(400,123)
Less: Amortization of Discount	244,992	231,236
Subtotal	(155,131)	(168,887)
Total	\$156,167	\$159,729

Various judiciary offices and personnel occupy the Thurgood Marshall Federal Judiciary Building under an Interagency Agreement between the AOC and the Administrative Office of the U.S. Courts. Base rent will not change over the initial 30 years and is set at the amount necessary to retire the debt at \$17,230,000 annually. Payment of the certificates will end in August 2024.

Per the language in the certificate agreement, "This Certificate is not subject to prepayment or acceleration under any circumstance."

#### NOTE 10: Contingent and Environmental Liabilities

We conducted a review of contingent liabilities for financial statement purposes for 2006 and 2005. Based on this review, we recorded a contingent liability for claims we think it probable we will lose and for which we can reasonably estimate the amount of an unfavorable outcome. Our review covered claims arising from contracts, environmental issues, labor and equal employment opportunity issues, and personal and property damage. Additionally, management and General Counsel evaluated the materiality of cases determined to have a reasonably possible chance of an adverse outcome. None of these cases were determined to meet our materiality threshold.

#### Fort Meade, Maryland

Our review concluded that we are not responsible for the clean-up and remediation of previous environmental contamination on the approximately 100 acres of land at Fort George G. Meade, Maryland (FGGM),

which the U.S. Army transferred to us. The Army is responsible for the environmental clean-up of any previous contamination under the Comprehensive and Environmental Response Compensation and Liability Act (CERCLA). We understand that the Army is actively monitoring existing contamination on the entire FGGM site, including the 100 acres transferred to us, and is pursuing appropriate remediation of this contamination.

#### Capitol Power Plant

The Office of Compliance issued a complaint in February 2006, alleging that certain unsafe work practices and conditions exist at the Capitol Power Plant (CPP) utility tunnels. The alleged unsafe work practices and conditions cited in the complaint pertain to the structural integrity of concrete in the utility tunnels and tunnel egress and communication systems.

In addition, in January 2006, the Office of Compliance issued Citations 59 and 60. These citations are not part of the complaint and formal enforcement action but also address other alleged unsafe work practices and conditions at the CPP utility tunnels. The unsafe work practices and conditions alleged by the Office of Compliance in Citation 59 are that employees working in the utility tunnels are exposed to heat stress conditions. Citation 60 is discussed below under Environmental Cleanup Cost Liability.

We are actively seeking solutions to the issues identified by the Office of Compliance. We intend to pursue settlement discussions with the goal of coming to a resolution of the issues in the complaint conditioned upon our budget authority, and logistical, technical and other limitations outside of our control.

Because the review of estimates is required in the preparation of our financial statement, our balance sheets reflect a liability of approximately \$34 million in 2006 and \$31 million in 2005. Management and General Counsel believe that we have made adequate provision for the amounts that may become due under the suits, claims, and proceedings we have discussed here.

#### Environmental Cleanup Cost Liability

In January of fiscal year 2006, the Office of Compliance issued Citation 60, addressing certain alleged unsafe work practices and conditions at the Capitol Power Plant utility tunnels. Since these conditions existed

at the end of 2005 and some of these tunnels have been in place and functioning since the early 1900's, we booked a liability and a related prior period adjustment as required by SFFAS 6, paragraph 105 on our 2005 financial statements. In Citation 60, the Office of Compliance alleges that the AOC has not adequately monitored Capitol Power Plant employees for asbestos exposure, provided required information to employees regarding the presence and location of asbestos in the tunnels, provided the required notification to employees regarding asbestos containing materials, or adequately maintained the tunnels so they were as free as practicable from asbestos, and asbestos waste, debris, and dust. Funding was requested and funds were appropriated by Congress to address the tunnel issues which is an amount adequate in management's opinion to comply with the Environmental Protection Agency's guidelines.

#### NOTE 11: Imputed Financing

In accordance with SFFAS No. 4, "Managerial Cost Accounting," imputed financing results when an entity receives un-reimbursed services from other government entities.

Our imputed financing consists of future pension benefits for our employees that are paid on our behalf by the Office of Personnel Management, and design elements paid for by the Army Corps of Engineers to improve building infrastructure campus-wide.

With certain exceptions, employees participate in one of three defined benefit retirement programs based upon the starting date of their employment with us: employee and employer contributions are made to the Civil Service Retirement and Disability Fund (CSRDF), the Civil Service Retirement Offset, or the Federal Employee Retirement System, all of which are administered by the Office of Personnel Management. Employees may also participate in the Thrift Savings Plan, which is a defined contribution retirement savings and investment plan. Our employees are authorized to participate in the Thrift Savings Plan by the Federal Employees Retirement System Act of 1986. The Federal Retirement Thrift Investment Board administers the Plan.

#### Civil Service Retirement System (CSRS)

According to PL 99-335, all employees hired prior to January 1, 1987, could elect CSRS or CSRS Offset. The CSRS provides a basic annuity and Medicare coverage. The CSRS fund covers most employees hired prior to January 1, 1984. The AOC and the employee contribute to



Medicare at the rate prescribed by law. We do not match contributions to the Thrift Savings Plan for employees who participate in the CSRS.

#### Civil Service Retirement System Offset

CSRS Offset generally covers those employees who have had a break in their CSRS service of more than one year and less than five years by the end of 1986. The AOC and the employee contribute to Social Security and Medicare at the rates prescribed by law. We do not match contributions to the Thrift Savings Plan for employees who participate in the CSRS Offset.

#### Federal Employee Retirement System (FERS)

According to PL 99-335, employees with less than five years of creditable civilian service as of December 31, 1986, were automatically converted to FERS. In addition, during certain periods in 1987, 1988, and 1998, employees hired before January 1, 1984, could choose to participate in FERS. This system consists of Social Security, a basic annuity plan, and the Thrift Savings Plan.

The AOC and the employee contribute to Social Security and Medicare at rates prescribed by law.

In addition, we are required to contribute to the Thrift Savings Plan a minimum of 1% per year of the basic pay of employees covered by this system. We also match a voluntary employee contribution up to 3% dollar-for-dollar, and another 2% is matched 50 cents on the dollar.

Imputed Financing consists of the following:

\$ in thousands		
<b>Imputed Financing</b>		
<b>Benefit Type</b>	<b>2006</b>	<b>2005</b>
CSRS	\$ 8,439	\$ 8,350
CSRS Offset	699	685
FERS	14,758	11,983
Less: Contributions	(18,389)	(17,381)
Subtotal Pensions	5,507	3,637
Health	8,519	7,883
Life Insurance	23	17
<b>Total Employee Benefits</b>	<b>\$ 14,049</b>	<b>\$ 11,537</b>
Corps Building Improvements	12,538	12,364
<b>Total</b>	<b>\$26,587</b>	<b>\$23,901</b>

#### NOTE 12: Leases

As of September 30, 2006 and 2005, we were committed to various noncancelable operating leases primarily covering administrative office space and storage facilities, motor vehicles, and office equipment. Many of these leases contain escalation clauses tied to inflationary and tax increases, and renewal options.

The following is a schedule of the present value of the future minimum lease payments required by those leases identified as capital leases, which have initial or remaining noncancelable lease terms in excess of one year.

#### Capital Leases

\$ in thousands			
<b>Capital Leases</b>			
<b>Fiscal Year</b>	<b>Real Property</b>	<b>Personal Property</b>	<b>Total</b>
2006	\$ 83	\$ 5	\$ 88
2007	5,945	-	5,945
2008	5,979	-	5,979
2009	6,015	-	6,015
2010	6,050	-	6,050
2011	6,086	-	6,086
Thereafter	31,614	-	31,614
<b>Total Future Lease Payments</b>			<b>61,777</b>
Less: Imputed Interest			14,024
<b>Net Capital Lease Liability</b>			<b>\$ 47,753</b>

#### Operating Leases

We currently have leases with the General Services Administration (GSA) and commercial vendors for office and storage space, plus rentals of equipment and vehicles.

The aggregate of our future payments due under noncancelable operating leases and our estimated real property payments to GSA for fiscal year 2007 through fiscal year 2011 is as follows:

\$ in thousands			
<b>Operating Leases</b>			
<b>Fiscal Year</b>	<b>Real Property</b>	<b>Personal Property</b>	<b>Total</b>
2007	\$ 7,568	\$ 51	\$ 7,619
2008	1,388	41	1,429
2009	1,392	41	1,433
2010	747	41	788
2011	499	41	540
Thereafter	-	525	525
Total Future Lease Payments			<u>\$12,334</u>

**NOTE 13: Other Liabilities**

During fiscal years 2006 and 2005, other liabilities consists of accrued accounts payable, contract holdbacks, advances from others, and miscellaneous receipts that are to be forwarded to Treasury (custodial liabilities). These receipts included, but were not limited to, flag-flying fees, rent for the Monocle restaurant, and steam and chilled water. These liabilities are current.

**NOTE 14: Net Cost of Operations**

Expenses for salaries and related benefits for 2006 and 2005 amounted to \$150 and \$155.6 million, which was about 38% and 39% of our annual net cost of operations for both years. Included in the net cost of operations are imputed federal employee benefit costs of \$14 and \$11.5 million paid by OPM.

Exchange revenue with the public consists of revenues received for services provided, such as access to the Senate Health and Fitness Facility, House Wellness Center, steam and chilled water to governmental and private entities, work performed on reimbursable projects, and lastly, rent, interest and reimbursement for projects performed related to the Thurgood Marshall Building.

**NOTE 15: Explanation of the Relationship Between Liabilities Not Covered by Budgetary Resources and the Change in Components Requiring or Generating Resources in Future Periods**

Increases in workers compensation, accrued annual leave, and other liabilities are reported in the Statement of Financing. These changes represent the decreases in liabilities not covered by budgetary resources, as reported in Note 7.

\$ in thousands		
	2006	2005
Liabilities not covered by budgetary resources	\$300,631	\$288,923
Less: Liabilities that are not components of net cost		
Debt held by the public	156,167	159,729
Capital leases	47,753	34,626
Liabilities not covered by budgetary resources that are components of net cost	\$ 96,711	\$ 94,568
Less: Prior year liabilities that are not components of current year net costs	96,861	99,453
Increase in exchange revenue receivable from the public	-	26
Change in Workers' Compensation, Accrued Annual Leave, and Other Liabilities, as reported on the Statement of Financing	<u>\$ (150)</u>	<u>\$ (4,859)</u>

The Components Requiring Resources in Future Periods includes increases in certain liability accounts, such as accrued annual leave, that are also included in the category "Not Covered by Budgetary Resources." In this instance, the expense is recorded for the period when the leave is earned and is included as a current period cost on the Statement of Net Cost.

The Balance Sheet uses proprietary accounts to present the balances for "Liabilities Not Covered by Budgetary Resources". An increase in the annual leave liability increases the unfunded liability on the Balance Sheet and the expenses on the Statement of Net Cost. The increase is not included in the Statement of Budgetary Resources since the liability will be paid from future resources. As a result, the Statement of Financing reports "Components Requiring Resources in Future Periods" which includes items such as accrued annual leave to reconcile budgetary resources to net cost.



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#### **NOTE 16: Deferred Maintenance**

Identifying needed "Deferred Maintenance" and "Capital Renewal" projects is a primary objective of Facility Condition Assessments (FCA's). Included in the FCA analysis is a highly technical but objective determination of when a work element needs to be accomplished. For some systems and building components, the extent and quality of maintenance directly affects life expectancy.

We have completed FCA's on nearly all of our buildings. The data gathering for these assessments was performed using methodologies including:

- Physical Surveys of the subject space
- Review of recent plans, reports or studies
- Interviews with current facility managers and staff
- Review of existing data from project management tools

Standards are provided for evaluating facility condition. These standards include (but are not limited to):

- Overview and summary condition descriptions for each facility
- Suggested project schedule for performance of deferred maintenance or capital renewal based on condition of systems and building components.
- Initial Facility Cost Assessment for deferred maintenance and capital renewal work.
- Use of Standardized Project Priority levels and "Project Classifications"

The results of these Facility Condition Assessments have and will provide a basis for developing a comprehensive facility maintenance and capital improvements plan. They provide a reasonable and supportable estimate regarding the level of deferred maintenance and capital renewal work required for the buildings within the Capitol Hill complex.

### **Independent Auditor's Report on Internal Control**

To the Architect of the Capitol

We have audited the financial statements of the Architect of the Capitol (AOC) as of September 30, 2006, and have issued our report thereon dated January 12, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 06-03, *Audit Requirements for Federal Financial Statements*.

In planning and performing our audit, we considered AOC's internal control over financial reporting by obtaining an understanding of AOC's internal control, determined whether internal controls had been placed in operation, assessed control risk, and performed tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the AOC's ability to record, process, summarize, and report financial data consistent with the assertion of management in the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 06-03. We did not test all internal controls relevant to operating objectives, as broadly defined by the Federal Managers' Financial Integrity Act of 1982, such as those controls relevant to ensuring efficient operations. The objective of our audit was not to provide assurance on internal control. Consequently, we do not provide an opinion on internal control.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect AOC's ability to record, process, summarize, and report financial data consistent with the assertions by management in the financial statements. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we



noted certain matters discussed in the following paragraphs involving the internal control and its operations that we consider to be reportable conditions and material weaknesses.

We also noted other matters involving the internal control over financial reporting which have been reported to AOC management in a separate letter dated January 12, 2007.

## **MATERIAL WEAKNESSES**

### **1. Internal Control Assessments (Repeat Condition)**

AOC has not completed a formal and systematic assessment and evaluation of the design and operation of internal controls. As of September 30, 2006, AOC has completed an assessment of the procure-to-pay process and has partially completed the human resources and time and attendance processes. AOC has not yet addressed the project management process. In the absence of a complete assessment, AOC cannot determine if its current internal control design mitigates existing risks and effectively safeguards assets.

Recommendation –AOC should complete and document internal control assessments that evaluate the effectiveness of the design and operation of its internal control structure, including the identification of risks to material accounts and the existence of internal controls to mitigate those risks. Although AOC is not subject to OMB Circular A-123, *Management's Responsibility for Internal Control*, we recommend that AOC consult the "Implementation Guide for OMB Circular A-123 Appendix A Internal Control over Financial Reporting" (the Guide). The Guide was issued by the Chief Financial Officers Council in May 2005. The Guide includes guidance enabling management to evaluate internal controls and monitor and test these controls throughout the year.

### **2. Annual Leave (Repeat Condition)**

We identified instances at AOC in which maximum leave carryover balances were exceeded, and leave balances in the WebTA and STAR Web time and attendance systems did not match National Finance Center (NFC) payroll system balances. While AOC has demonstrated improvement in this area, the controls structure does not yet reduce financial misstatement risk to an acceptable level.

- From 2005 to 2006, 15 employees carried over more than the 240-hour maximum leave balance. AOC could not support the propriety of the excess carryover amounts.
- In the NFC payroll system, employees' annual leave balances in the WebTA and STAR Web time and attendance systems did not match balances in the NFC payroll system.

Recommendation – AOC should develop a process in which annual leave amounts in the WebTA and STAR Web systems are reviewed for accuracy and compared to amounts in the NFC payroll system.

### **3. Time Recordation, Processing, and Approval Procedures (Repeat Condition)**

We identified instances where AOC time recordation and payroll was not properly authorized. The instances include:

- Out of a sample of ten, there were three occurrences where timekeeper certification and supervisor approval were performed by the same individual. In addition, input of an employee's time and attendance by the timekeeper was not independently reviewed for accuracy
- Out of a sample of 76, 11 employees were either missing an overtime approval form or did not have the required authorizing signature
- Out of a sample of 76, five leave request forms were not approved prior to leave being taken.

Recommendation – AOC should develop procedures to ensure policies concerning the approval and entering of time are enforced.

### **4. Risk Assessment Updates**

AOC's internal control environment does not have formal, documented processes to monitor the internal and external environment, identify changing risk profiles, or respond accordingly. Specifically, AOC did not implement controls to reconcile the payroll data transmitted to and received from NFC (as recommended by NFC) as an appendix to its qualified SAS 70 opinion. While several employees performed additional tests, this did not constitute a repeatable and sustainable systemic effort.

Recommendation – AOC should implement procedures to monitor and identify changing risks. Also, AOC should reconcile NFC payroll data transmission to data receipt including, at a minimum, jurisdictional employees and hours.

### **5. Internal Control Design and Management of the Purchase to Disbursement Process**

No organization/entity within AOC is accountable for the collective purchase to disbursement process. AOC has decentralized many components of the purchase and disbursement process including initiating requisitions, purchase authorizations, and receiving and disbursement approvals. Within a decentralized process, this lack of central monitoring and oversight results in a weakened control environment.

We also identified 16 individuals from three divisions with the ability to access and modify the vendor database, with no process to ensure the propriety and accuracy of



changes made. Supervisors also do not approve vendor requests before new vendors are created in the system.

Recommendation – AOC should assign formal authority for the oversight and monitoring of the collective purchase to disbursement process, including risk assessments and control design. These assessments should focus on interchange points between process participants to ensure that financial statement risks are adequately mitigated. We also recommend limiting access to the vendor database to a select number of individuals, and that proposed changes be reviewed and approved before data entry. Data entry should also be reviewed for accuracy by a third party.

## **REPORTABLE CONDITIONS**

### **1. Information System Controls (Repeat Condition)**

We evaluated AOC's information system general controls in accordance with guidance provided by the National Institute of Standards and Technology (NIST) and the Government Accountability Office's (GAO) Federal Information System Controls Audit Manual (FISCAM). We have provided a detailed report and a prioritization of findings under separate cover. For detailed descriptions and recommendations for these findings, refer to the separately issued report.

AOC has made improvements to its overall information system security program since the completion of the FY 2005 audit. AOC's progress includes:

- Development of security plans that cover all major facilities and operations, which are resource owner approved. Security plans for the general support systems (GSS) and major applications are reviewed periodically and adjusted to reflect current conditions and risks
- A security management structure has been established and documented in the security plans for the GSS and major applications. The security plan clearly identifies resource owners and assigns security responsibility to the Chief Information Security Officer (CISO)
- Establishment of resource classifications and related criteria; therefore, consideration has been given to data sensitivity and integrity
- Development and testing of the Continuity of Operations (COOP) and Disaster Recovery Plans.

Having noted improvements, AOC still has areas of weakness that should be addressed. Some of the more significant findings from that report are summarized below. Findings are reported under the following general categories:

- Entity-wide Security Program
- Access Control
- Service Continuity.

***Entity-wide Security Program***

This category provides a framework and continuing cycle of activity for managing risk, developing security policies, assigning responsibilities, and monitoring the adequacy of the entity's computer-related controls. We noted weaknesses in the following areas relating to AOC's entity-wide security program:

- Risk assessments for financial and core operational components
- Information Systems Security Plans (ISSP) are not fully implemented
- Incident response procedures
- Detailed hiring procedures
- Security awareness and technical security training
- Effectiveness of corrective action process.

***Access Control***

Controls within this category limit or detect access to computer resources (i.e., data, programs, equipment, and facilities), thereby protecting these resources against unauthorized modification, loss, and disclosure. We noted weaknesses in the following areas relating to the AOC's access control:

- Documentation of user profile definitions
- De-provisioning and reassessing user accounts and assigned privileges
- Administration of special access privileges and the control of emergency and temporary authorizations
- Formalized procedures for the handling of security violations.

***Service Continuity***

The controls in this category prevent loss of the capability to process, retrieve, and protect information maintained electronically. AOC should improve and test the COOP.

Recommendation – AOC should perform the following:

- Conduct a comprehensive risk assessment using NIST SP 800-30 methodology to identify risks and implement appropriate mitigating controls to address vulnerabilities, including those identified in SAS 70 audit reports
- Implement security plans
- Revise customer help desk incident response procedures to include responsibilities for security incident response
- Define Information Technology Division (ITD) positions including level of sensitivity
- Require all AOC employees to receive annual security awareness training and require information technology (IT) security staff to receive specialized training

for assigned job duties. Evidence of such training should be documented and maintained

- Develop a formal process to address observations from security reviews, which should include independent evaluation of the corrective action
- Document user profiles and include them in the system security plans
- Develop and implement user account management procedures to ensure timely removal or modification of user accounts and assigned privileges
- Implement monitoring procedures in accordance with NIST SP 800-92 to ensure network management is compliant with ITD policies and procedures
- Implement network management tools and procedures to enhance control
- Continue to develop a comprehensive COOP, perform tests of the COOP, and make necessary changes based on results.

This report is intended solely for the information and use of the Office of Inspector General of the Architect of the Capitol, Architect of the Capitol management, GAO, and the U.S. Congress, and is not intended to be, and should not be used by anyone other than these specified parties.



January 12, 2007  
Alexandria, Virginia



### **Independent Auditor's Report on Compliance and Other Matters**

To the Architect of the Capitol

We have audited the financial statements of the Architect of the Capitol (AOC) as of September 30, 2006, and have issued our report thereon dated January 12, 2007. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 06-03, *Audit Requirements for Federal Financial Statements*.

The management of AOC is responsible for complying with laws and regulations applicable to AOC. As part of obtaining reasonable assurance about whether AOC's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts and certain other laws and regulations specified in OMB Bulletin No. 06-03. We limited our tests of compliance to these provisions and we did not test compliance with all laws and regulations applicable to AOC. However, providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of our tests of compliance with laws and regulations described in the preceding paragraph disclosed two instances of noncompliance, described below, with the following laws and regulations that are required to be reported upon under *Government Auditing Standards* and OMB Bulletin No. 06-03.

- AOC was not compliant with the Congressional Accountability Act (CAA) of 1995. In the CAA, Congress made its facilities and employees subject to the same safety laws that apply outside of the Legislative Branch. In 1997, other provisions of the CAA applied fire safety standards to Congressional buildings, including the buildings of AOC. The Office of Compliance has conducted ongoing safety investigations since the inception of the Act which have identified numerous safety hazards in several of AOC's buildings.
- AOC is responsible for maintenance of the utility tunnels which run from the Capitol Power Plant to the House and Senate office buildings, the United States Capitol, and other surrounding buildings. In January 2006, the Office of Compliance issued citations resulting from their July 2005 investigation which alleged violations of the Occupational Health and Safety Act. These citations



addressed 1) employees exposure to heat stress conditions 2) monitoring of employees potentially exposed to airborne concentrations of asbestos 3) notifying employees about the presence and location of asbestos containing material 4) labeling asbestos containing materials 5) maintaining surfaces free of asbestos waster, debris, and dust.

This report is intended solely for the information and use of the AOC Office of Inspector General, management of AOC, OMB, the Government Accountability Office, and Congress, and is not intended to be, and should not be, used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Kearney &amp; Company".

January 12, 2007  
Alexandria, Virginia